

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

# **RICHLAND-LOGAN FIRE AUTHORITY**

Ogemaw County, Michigan

## **FINANCIAL STATEMENTS**

March 31, 2006

# **RICHLAND-LOGAN FIRE AUTHORITY**

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BERTHIAUME  
& COMPANY

Certified Public Accountants



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## **INDEPENDENT AUDITORS' REPORT**

To the Fire Board  
Richland-Logan Fire Authority  
Prescott, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Richland-Logan Fire Authority, as of and for the year ended March 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Richland-Logan Fire Authority Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Richland-Logan Fire Authority, as of March 31, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Richland-Logan Fire Authority's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 9, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements as of April 1, 2005.

*Berthiaume & Co.*

August 1, 2006

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **GOVERNMENTAL FUND BALANCE SHEET – STATEMENT OF NET ASSETS**

March 31, 2006

	<b>Balance Sheet Modified Accrual</b>	<b>Adjustments (Note 2)</b>	<b>Statement of Net Assets - Full Accrual</b>
<b>ASSETS:</b>			
Cash and cash equipments	\$ 94,293	\$ -	\$ 94,293
Taxes receivable	13,553	-	13,553
Prepaid expenses	6,599	-	6,599
Capital assets:			
Nondepreciable capital assets	-	3,000	3,000
Depreciable capital assets – net	-	331,527	31,527
	<u>\$ 114,445</u>	<u>\$ 334,527</u>	<u>448,972</u>
<b>LIABILITIES AND FUND EQUITY:</b>			
<b><i>Liabilities:</i></b>			
Accounts payable	\$ 3,789	\$ -	\$ 3,789
Notes payable:			
Due within one year	-	-	-
Due in more than one year	-	-	-
	<u>3,789</u>	<u>-</u>	<u>3,789</u>
<b><i>Fund Balance:</i></b>			
Unreserved/undesignated	110,656	(110,656)	-
	<u>\$ 114,445</u>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		334,527	334,527
Unrestricted		110,656	110,656
Total net assets		<u>\$ 334,527</u>	<u>\$ 445,183</u>

*The Notes to Financial Statements are an Integral Part of this Statement.*

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/ STATEMENT OF ACTIVITIES**

For the Year Ended March 31, 2006

	<b>Revenues and Expenditures - Modified Accrual</b>	<b>Adjustments (Note 2)</b>	<b>Statement of Activities - Full Accrual</b>
<b>REVENUES:</b>			
Property taxes – Richland Township	\$ 25,107	\$ -	\$ 25,107
Property taxes – Logan Township	21,940	-	21,940
Federal capital grant	89,186	-	89,186
State capital grant	1,200	-	1,200
Fire runs	2,625	-	2,625
Insurance claim	9,629	(3,485)	6,144
Interest	185	-	185
Other	723	-	723
	<u>150,595</u>	<u>(3,485)</u>	<u>147,110</u>
<b>EXPENDITURES/EXPENSES:</b>			
Public Safety:			
Operations	47,906	-	47,906
Depreciation	-	8,160	8,160
Capital outlay	127,802	(127,802)	-
Debt service	-	-	-
	<u>175,708</u>	<u>(119,642)</u>	<u>56,066</u>
Change in fund equity/net assets, increase (decrease)	(25,113)	116,157	91,045
Fund equity/net assets, beginning of year	<u>135,769</u>	<u>218,370</u>	<u>354,138</u>
Fund equity/net assets, end of year	<u>\$ 110,656</u>	<u>\$ 334,527</u>	<u>\$ 445,183</u>

*The Notes to Financial Statements are an Integral Part of this Statement.*

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **NOTES TO FINANCIAL STATEMENTS**

March 31, 2006

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### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The accounting and reporting policies of the Fire Authority included in the basic financial statements conform to U.S. generally accepted accounting principles applicable to state and local governments.

#### **A. Reporting Entity –**

The Richland-Logan Fire Authority was created in 1998 by the Townships of Richland and Logan. The Authority was created to maintain and operate a joint fire department for the purpose of providing and furnishing fire protection within the geographical boundaries of the two Townships. The Fire Authority is governed by an appointed Administrative Board with each unit of government appointing members to the Board.

#### **B. Government-Wide and Fund Financial Statements –**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information of all activities of the Fire Authority. The Richland-Logan Fire Authority is accounted for in one governmental type fund.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation –**

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The fund (modified accrual) statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

#### **D. Assets, Liabilities and Net Assets or Equity –**

**Cash Equivalents** – Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **NOTES TO FINANCIAL STATEMENTS, continued**

March 31, 2006

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:**

**Capital Assets** – capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Fire Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following:

	<u>Years</u>
Equipment and trucks	5, 40, 20
Buildings	40
Land improvements	15

**Deferred Revenues** – In both the government-wide and in the fund (modified accrual) financial statements, revenue received or recorded before it is earned is recorded as deferred revenue. In addition, in the fund statements, revenues that are not both measurable and available are recorded as deferred revenues. The Fire Authority has no deferred revenues as of March 31, 2006.

**Long-Term Obligations** – In the government-wide financial statements, long-term debt and other long-term obligations, if any, are reported as liabilities in the statement.

In the fund financial statements, these items are recorded as an expenditure when paid.

**Estimates** – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **NOTES TO FINANCIAL STATEMENTS, continued**

March 31, 2006

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### **NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FINANCIAL STATEMENTS**

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- A. Reconciliation of differences between the fund (modified accrual) balance sheet and the government-wide statements of net assets.

Fund balance, March 31, 2006	\$ 110,656
Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	
Add – capital assets	403,218
Deduct – accumulated depreciation	<u>(68,691)</u>
Net assets, March 31, 2006	<u>\$ 445,183</u>

- B. Reconciliation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities.

Net changes increase (decrease) in fund balance – modified accrual, for the year ended March 31, 2006	\$ (25,113)
The fund (modified accrual) statements report capital outlay as expenditures. However, in the Statement of Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
Add – capital outlay	124,318
Deduct – depreciation	<u>(8,160)</u>
Change in net assets, for year ended March 31, 2006	<u>\$ 91,045</u>

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### **NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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The Uniform Budgetary and Accounting Act, PA 2 of 1968, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the year, the Fire Authority incurred no expenditures which were in excess of the amounts appropriated.

# **RICHLAND-LOGAN FIRE AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS, continued**

March 31, 2006

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### **NOTE 4: DEPOSITS AND INVESTMENTS**

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The investment policy adopted by the Fire Authority is in accordance with Public Act 196 of 1997. The Authority's deposits and investments have been made in accordance with statutory authority.

The Authority's deposits and investments are subject to risk, which is examined in more detail below.

#### **Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$14,292 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$14,292 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits.

The Authority had no investments at March 31, 2006.

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### **NOTE 5: CAPITAL ASSETS**

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Capital assets activity for the year ended March 31, 2006 was as follows:

	<b>Balance at April 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at March 31, 2006</b>
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
<b>Depreciable Capital Assets:</b>				
Building	210,000	-	-	210,000
Land improvements	-	10,310	-	10,310
Equipment and trucks	65,901	114,007	-	179,908
	275,901	124,317	-	400,218
<b>Accumulated Depreciation:</b>				
Building	31,500	5,250	-	36,750
Land improvements	-	-	-	-
Equipment and trucks	29,031	2,910	-	31,941
	60,531	8,160	-	68,691
Depreciable capital assets, net	\$ 215,370	\$ 116,157	\$ -	\$ 331,527
Capital assets, net	\$ 218,370	\$ 116,157	\$ -	\$ 334,527

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **NOTES TO FINANCIAL STATEMENTS, continued**

March 31, 2006

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### **NOTE 6: LONG-TERM DEBT**

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The Fire Authority has no long-term debt as of March 31, 2005 and 2006.

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### **NOTE 7: PROPERTY TAXES**

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The Fire Authority is authorized, by vote of the people in Richland and Logan Townships, to levy a 1 mill tax for operations on the assessed taxable values in each Township. The millage rate for 2005, as adjusted, was 91.55 mills. The assessed taxable values for Richland and Logan Townships were \$27,424,981 and \$23,965,035 respectively.

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### **NOTE 8: RISK MANAGEMENT**

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The Fire Authority is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Fire Authority carries commercial insurance for liability and property loss.

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## **NOTES TO FINANCIAL STATEMENTS, continued**

March 31, 2006

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### **NOTE 9: RESTATEMENT**

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For the year ended March 31, 2006, the Fire Authority implemented the following Governmental Accounting Standards Board pronouncements:

**Statements:**

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

The more significant of the changes required by the new standards include:

Basic financial statements that include:

- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to the basic financial statements

As a result of implementing these pronouncements for the fiscal year ended March 31, 2006, the following restatements were made to net assets at March 31, 2005:

*Government-wide financial statements.* Beginning net assets for governmental activities were determined as follows:

Fund balance as of March 31, 2005	\$ 135,769
Add: capital assets	278,900
Less: accumulated depreciation on capital assets	(60,531)
Net assets as of March 31, 2005	<u>\$ 354,138</u>

***REQUIRED SUPPLEMENTAL INFORMATION***

# **RICHLAND-LOGAN FIRE AUTHORITY**

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## *GENERAL FUND*

### **BUDGETARY COMPARISON SCHEDULE**

March 31, 2006

	<b>Original/ Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES:</b>			
Property taxes	\$ 85,000	\$ 47,047	\$ (37,953)
Federal and state grants	90,386	90,386	-
Interest	250	185	(65)
Other	1,700	12,977	11,277
	<u>177,336</u>	<u>150,595</u>	<u>(26,741)</u>
<b>EXPENDITURES:</b>			
Operations	58,657	47,906	10,751
Capital outlay	139,186	127,802	11,384
Debt service	-	-	-
	<u>197,843</u>	<u>175,708</u>	<u>22,135</u>
Change in fund equity	(20,507)	(25,113)	4,606
Fund equity, beginning of year	<u>135,769</u>	<u>135,769</u>	<u>-</u>
Fund equity, end of year	<u>\$ 115,262</u>	<u>\$ 110,656</u>	<u>\$ 4,606</u>



August 1, 2006

To The Fire Authority Board  
Richland-Logan Fire Authority

We have audited the financial statements of Richland-Logan Fire Authority for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

#### Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Richland-Logan Fire Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

#### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Richland-Logan Fire Authority are described in Note 1 to the financial statements. We noted no transactions entered into by Richland-Logan Fire Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.



We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

#### Comments

The Fire Authority is owed \$4,071.36, from Logan Township, for 2004 property taxes. This amount represents fire taxes returned delinquent to the County in March 2005. The Fire Authority should request the Township to pay this to the Fire Authority as soon as possible.

It appears that Logan Township has not been remitting fire tax to the Authority in a timely manner. State law requires Townships to pay out collected property taxes within ten (10) business days.

We recommend that the Fire Authority, each tax year, determine the total tax amount levied by each Township, and then account for the receipt of the correct amounts in full, in a timely manner.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire Authority's financial statements and this communication of these matters does not affect our report on the organization's financial statements, dated August 1, 2006.

#### Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

*Berthiaume & Co.*

Berthiaume & Company  
Certified Public Accountants